

Testimony of Rachel A. Volberg
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Before the House Energy and Commerce Committee
Subcommittee on Commerce, Manufacturing, and Trade

Hearing on
“Internet Gaming: Regulating in an Online World”
Rayburn House Office Building, Washington, DC

November 18, 2011

Summary of Testimony

Internet gambling is a fluid and dynamic market characterized by significant inter-jurisdictional inconsistencies. As a result, policymakers, operators and other stakeholders face substantial ambiguities about the best approach to legalizing and regulating Internet gambling. My testimony today addresses three issues: (1) whether revenue projections for legalized Internet poker will be met; (2) whether there will be an increase in the number of problem gamblers as a result of legalizing Internet poker; and (3) what can be done from a regulatory perspective to prevent or mitigate likely increases in the prevalence of problem gambling in the wake of the introduction of Internet poker.

Good morning Chairwoman Bono Mack, Ranking Member Butterfield, and Members of the Subcommittee. Thank you for inviting me to testify this morning. My name is Rachel Volberg. I am a Senior Research Scientist at NORC at the University of Chicago, I live in Western Massachusetts, and I have specialized in population studies of gambling and problem gambling for 26 years.

The Current Situation: Inter-Jurisdictional Confusion and Competition

Online gambling has only existed since 1995 and, internationally, different countries are experimenting with a range of approaches to legalization. Some countries prohibit most or all forms of online gambling; at the other end of the spectrum are countries that permit nearly all forms of online gambling. In the middle are countries that have put in some legal restrictions, those that provide for a domestic online market with patronage restricted to their own citizens, those that also prohibit residents from accessing online gambling outside the country, and those that operate online gambling but prohibit their own residents from accessing the sites (Williams, Wood, & Parke, 2012 in press; Wood & Williams, 2009).

There are many arguments to be made in support of Internet gambling legalization. Proponents of legalization point out that:

- it is exceedingly difficult to effectively prohibit online gambling;
- over time, populations adapt to the presence of problematic products and develop some 'inoculation' from further harm; and
- legally regulated sites better ensure player protection and deter crimes.

There are also compelling arguments for prohibition, some in direct counterpoint to the arguments for legalization. The main arguments in defense of prohibition are:

- the purpose of laws is to codify societal values in an effort to shape, rather than conform to, people's behavior;
- legalization will likely increase rates of problem gambling; and
- player protection tools are likely to have only modest efficacy in preventing problem gambling.

While there are strong economic incentives for governments to legalize and regulate Internet gambling, there is, as yet, no satisfactory model proposed to regulate these activities.

Australia was one of the earliest countries to attempt to license and regulate Internet gambling. In 2001, the Australian Government passed the Interactive Gambling Act (IGA) which permits Australian states and territories to license and regulate online operators. The eight Australian states and territories have each created different gambling policies and regulations but inter-state competition has given rise to substantial discord; for example, around the flouting of advertising standards (Gainsbury & Wood, 2011). The lack of cohesive policies recently led the Australian Productivity Commission (2010) to recommend that Australia implement a national regulatory approach.

In Canada, most forms of gambling are regulated at the provincial level and provincial governments are generally the owners and operators of provincial gambling enterprises. There have been several forays into online gambling in Canada. These were led initially by Internet-based horse race wagering followed by the offer of lottery products and then other forms of gambling by provincial lotteries. In 2010, British Columbia and Quebec made Internet gambling available to their citizens and

the two provinces will soon permit their residents to compete against each other in online poker games. Ontario will begin offering Internet gambling to its citizens in 2012.¹

In 2006, Congress passed the Unlawful Internet Gambling Enforcement Act (UIGEA) which made it illegal for financial transaction providers to transfer funds to online gambling sites. In the wake of this legislation, a significant number of online gambling sites stopped taking bets from U.S. citizens. UIGEA exempts online intra-state sales of lottery tickets, inter-state horse race betting and some types of intra-state online gambling. Despite the law, many U.S. players circumvent UIGEA by using non-U.S. financial transaction intermediaries to place bets. While overall participation in Internet gambling in the United States is quite low (estimates range from 0.3% to 3.0%) (Rasmussen Reports, 2006; Welte, Barnes, Wieczorek, Tidwell, & Parker, 2002), a recent survey of international online gamblers found that 25% of the respondents were from the United States (Wood & Williams, 2009).

Will Revenues Meet Projections?

While revenues from Internet gambling can be difficult to determine, it is estimated that worldwide online gambling revenues rose from \$600 million in 1998 to \$16.6 billion in 2008. Poker is the most popular form of online gambling and accounts for approximately 60% of online gambling activity but for only 23% of the worldwide online gambling market, compared with 38% for sports/racebooks and 25% for online casinos (Global Betting and Gaming Consultants, 2008, cited in Wood & Williams, 2009). Extrapolating from these figures, it appears that online poker generates approximately \$4 billion in annual revenues worldwide.

¹ Along with my colleague Rob Williams from the University of Lethbridge, I am just beginning a three-year project to study the impacts of online gambling legalization in Ontario. The study is funded by the Ontario Problem Gambling Research Centre.

As far as I have been able to determine, there are no published estimates of the revenues that would likely be generated by the legalization of online poker in the United States. However, the Joint Committee on Taxation has published an analysis of projected tax revenues if a broader Internet gambling regime were legalized. Estimated federal tax revenues under four different scenarios ranged from \$10 billion to nearly \$42 billion over a ten-year period (Barthold, 2009). A separate analysis by PricewaterhouseCoopers estimated that between \$13 billion and \$26 billion in tax revenues would be generated over ten years. If no states were permitted to opt out of the legislation, it was estimated that legalized Internet gambling would generate nearly \$49 billion over ten years (PricewaterhouseCoopers, 2009).

An interesting feature of these analyses is that they apparently assume that, if U.S. companies are permitted to offer online gambling, then these companies will capture the entire worldwide online gambling market. Although Internet gambling is relatively young, this is a mature market with significant barriers for new online gambling companies. Legally sanctioned domestic sites will only be patronized to the extent that they offer a competitive advantage to the consumer. However, existing 'offshore' jurisdictions have a strong competitive advantage by virtue of their longer established presence. Furthermore, regardless of whether Internet gambling is legalized in the United States, there will always be many non-domestic sites available to online gamblers (Williams et al., 2012 in press).

In France, it is estimated that only 43% of the Internet gambling market is currently captured by legal domestic sites (MAG, 2011). In Britain, only 25% of the estimated £2.5 billion that British consumers spend annually on Internet gambling goes to operators licensed by the British Gambling Commission (Williams et al., 2012 in press). A more salient example comes from Sweden where the introduction of a legal domestic online poker site, in 2006, led to a significant increase in overall Internet gambling participation (Swedish National Institute of Public Health, 2010). However, in a separate

survey, only 28% of Swedish online poker players reported patronizing the domestic site exclusively while another 25% of players reported patronizing several poker sites including the domestic site (Jonsson, 2012 in press). If these figures are extrapolated to a legalized U.S. market, tax revenues from Internet gambling are more likely to be in the range of \$3 billion to \$12 billion over ten years.

Finally, it is possible that legalizing online gambling and providing domestic access may actually increase monetary outflow rather than retaining it. This is a lesson learned in the late 1980s and 1990s from the introduction of domestic-market casinos in North American states and provinces, intended to capture gambling dollars that were being spent in Nevada and Atlantic City. Nevada experienced an enormous growth in gambling revenues in this period because the creation of domestic casinos led to increases in casino gambling participation which led, in turn, to increased visits to major international gambling destinations (Williams, Belanger, & Arthur, 2011).

A Likely Increase in Problem and Pathological Gambling

Prevalence (or total stock) of a disorder is determined by incidence, or the inflow of new cases, duration, and the outflow of current cases through recovery, migration or death (Abbott, 2006). In the study of clinical disorders, pathological gambling is considered a chronic disorder. Chronic disorders strongly tend to recur once fully developed, constituting a lifelong vulnerability. This vulnerability to relapse may be effectively treated and kept in check. But a period in which the individual is relatively free of symptoms does not mean that the person is free of the disorder.

One reason that legalization of Internet gambling may lead to an increase in the rate of problem gambling is that legalization provides tacit governmental approval for these activities and leads citizens to assume that the products are safe. This in turn typically leads to an increase in overall participation,

as is also seen in the legalization/decriminalization of prostitution, abortion, and cannabis (Alan Guttmacher Institute, 2008; Jakobsson & Kotsadam, 2011; MacCoun, 2010; Wardle, Griffiths, Orford, Moody, & Volberg, 2011). Increases in overall participation tend to be reliably associated with increases, at least temporarily, in the prevalence of problem gambling (Grun & McKeigue, 2000; Lund, 2008; Rose, 1985; Williams, Volberg, & Stevens, 2011).

Another reason that legalization is likely to increase rates of problem gambling is because the nature of online gambling makes it inherently more problematic than most other forms of gambling. Greater convenience, easier access, the solitary nature of play, the ability to play when intoxicated, the lack of realistic cash markers, and the ability to play multiple sites and/or games simultaneously are all features that contribute to a diminution in players' ability to control their involvement. Another challenge is that Internet problem gamblers have a much more difficult time avoiding gambling venues which are available at the click of a mouse (Schull, 2005; Wood, Williams, & Lawton, 2007).

There is substantial research showing that the prevalence of problem gambling is three to four times higher among Internet gamblers compared to non-Internet gamblers (Griffiths & Barnes, 2008; Jonsson, 2012 in press; Ladd & Petry, 2002; Wood & Williams, 2007, 2009). In California in 2006, although only 2.1% of our respondents had ever gambled on the Internet, 11.3% of these individuals were classified as pathological gamblers and another 19.2% were classified as subclinical problem gamblers. In a logistic regression analysis that controlled for individual demographics and co-occurring behaviors and disorders, respondents who had gambled on the Internet in the past year were ten times more likely to be a problem or pathological gambler compared with those who had not gambled on the Internet (Volberg, Nysse-Carris, & Gerstein, 2006).

Most things that go up usually come down and this is as true in epidemiology as in other realms. Epidemiological research strongly suggests that problem gambling prevalence does eventually level out

and decline, even if accessibility continues to increase (Williams, Volberg et al., 2011). Greater public awareness, expanding services for problem gamblers and regulatory, industry and public health measures are among the likely contributors to such declines. What is not known is how quickly these and other factors can have a significant impact. It is also not known if these factors can prevent problem escalation even if introduced concurrently with increased access to gambling (Abbott, 2005; Abbott, Volberg, Bellringer, & Reith, 2004).

While longitudinal studies of gambling have only recently begun to yield results, one consistent and recurring theme emerging from these studies is that most gambling problems tend to resolve over time (Abbott & Clarke, 2007; LaPlante, Nelson, LaBrie, & Shaffer, 2008; Slutske, Jackson, & Sher, 2003). However, in the only study to date to examine problem gambling incidence, the researchers found that among adults who became problem gamblers over a 12-month period, approximately one-third were new cases without a previous history of problem gambling while two-thirds were classified as relapsing cases (Victoria Department of Justice, 2011).

While there are good theoretical grounds to believe that Internet gambling contributes to problem gambling, it is possible that problem gamblers simply add Internet gambling to their repertoire. Very recent longitudinal research in Ontario, Canada has found that both directional routes occur. However, Internet gambling leading to problem gambling tends to be the most common pathway (Wood, Williams, & Parke, 2012 in press). Although there is speculation about an 'inoculation effect,' such that gamblers eventually habituate and overcome difficulties related to their gambling, most of the financial, psychological, social, work/school and legal harms associated with problem gambling cannot be undone (Gainsbury & Wood, 2011; Williams et al., 2012 in press). Given this scenario, it is essential that regulatory policies take account of likely increases in problem gambling in the wake of the legalization of online poker in the United States.

The Proposed Regulatory Model Needs Improvement

In 1999, the National Gambling Impact Study Commission (1999) pointed out that, unlike other consumer businesses, legal gambling has largely been shaped by government decisions, at the federal, state and local levels. The Commission commented that “rivalry and competition for investment and resources” were the driving factors in government decision-making related to legalized gambling in America and noted that “even the states concede that only Washington has the potential to control gambling on the Internet” (1999, p. 1-5). The latest round of casino legalization in the Northeast of the United States suggests that the situation with regard to inter-state competition for gambling revenues has not changed in the intervening years.

H.R. 2366 provides for Federal oversight of state and tribal agencies that will issue licenses for online poker through a newly-established Office of Internet Poker Oversight within the Department of Commerce (Section 103). This office will have the responsibility to prescribe minimum standards for qualifying these state and tribal agencies but will have no role in setting standards or issuing licenses to operate online poker (Section 104). Instead, each state and tribal agency will be required to establish requirements for the development of a Compulsive Gaming, Responsible Gaming, and Self-Exclusion Program that each licensee will be required to implement as a condition of licensure (Section 106). A self-exclusion program represents the minimum standard required in H.R. 2366.

The provisions in H.R. 2366 virtually guarantee that requirements for programs to prevent and mitigate gambling-related problems will vary significantly across the states. There is already tremendous variability in existing efforts to address problem gambling in the United States, with per capita expenditures on problem gambling services, including prevention, treatment and research, ranging from \$1.36 in Iowa to less than one cent in Maryland (Marotta, Moore, & Christensen, 2011).

With each state responsible for its own consumer protection and harm minimization requirements, and with states invariably competing with one another for players and revenues, some states will implement far less restrictive regimes than others and players, migrating to these less restrictive sites, will not benefit from the tools that are put in place to protect consumers and prevent gambling problems. While competition among online gambling providers ensures a cost-efficient and appealing consumer product, a free market is likely to come at the cost of less player protection (Williams, West, & Simpson, 2008).

Some countries have enacted legislation that requires gambling providers to effectively mitigate harm from the provision of gambling. For example, Germany has legislation that, among other things, requires all new gambling products to be reviewed by an advisory board of gambling addiction experts prior to their introduction (Meyer, Hayer, & Griffiths, 2009). In Sweden, the responsible gambling program implemented by Svenska Spel includes limits in marketing and advertising, a self-exclusion feature, and a mandatory requirement for all players to set limits with regard to time and money. The program also includes a self-assessment (GAM-TEST) where players can receive objective feedback on their gambling habits. A required independent evaluation of the program, called Playscan (<http://www.playscan.com/>), found that reasonable time and monetary limits were set by the majority of players and, for those who set reasonable limits, most abide by those limits (Jonsson, 2012 in press).

Beyond the requirement that licensees establish self-exclusion programs, additional minimum consumer protection and harm minimization requirements are needed in H.R. 2366. These should include an opt-out requirement for players to set daily, weekly and monthly limits with regard to time and money with changes only possible after a 24-hour cooling-off period, monthly financial statements, and self-assessment tests. All of these are measures supported strongly by Internet gamblers surveyed worldwide (Parke, Rigbye, Parke, & Williams, 2007). It would be best if these consumer protection

measures as well as the self-exclusion program were operated by a third-party, independent organization rather than by the online gaming operators or the licensing state and tribal agencies. In particular, this would allow players who wish to self-exclude to visit a single site where they can exclude from all of the domestic sites at one time rather than having to exclude themselves from each site individually.

While establishing and enforcing these minimum consumer protections will be helpful, these measures will not be adequate without a mechanism to adequately fund prevention, treatment and research on problem gambling in the United States. You heard last month from Keith Whyte of the National Council on Problem Gambling who requested your support for H.R. 2334, the Comprehensive Problem Gambling Act, which would set aside \$50 million in gaming revenues to fund such programs. In my view, this is the bare minimum required. The United States lags far behind other countries in this regard: there has never been a Federal agency with primary responsibility to address problem gambling and state funding for problem gambling prevention, treatment and, most especially, research is approximately one-twentieth of the level in countries such as Australia and Canada (Volberg, 2009).

Conclusion

While online gambling offers better possibilities, compared to land-based forms of gambling, to implement player protection measures, there are unmistakable challenges in providing these tools and ensuring that the players most in need of protection actually use them. If Internet poker is legalized in the United States, it will be important to ensure that these tools are available to players on all licensed sites. It will also be important to establish an independent agency through which these tools are made available to players in order to overcome the reluctance demonstrated to date by the online gambling industry to implement cross-operator player protection tools (Dragicevic, 2011).

The pre-commitment constraints that most online sites presently allow players to impose tend to be voluntary and of relatively short duration. These types of constraints are of primary benefit to non-problem gamblers but are unlikely to have a significant impact on the out-of-control behavior of pathological gamblers (Griffiths, 2012 in press; Nower & Blaszczynski, 2010; Williams et al., 2008). This is why additional resources are needed to provide for adequate problem gambling prevention, treatment and research.

Online gambling is clearly here to stay and will continue to evolve with continual changes and competition among Internet gambling sites, with new demographic groups such as women and older adults entering the market, and with a growing number of jurisdictions legalizing and regulating these activities. The question is what governments can and will do to create a safety net for their citizens, to minimize the likely increase in the number of problem gamblers, to provide treatment for those afflicted, and to ensure that research is undertaken to understand the impacts of Internet gambling on society (Gainsbury & Wood, 2011).

Thank you again for the opportunity to testify. I look forward to answering your questions and to assisting the Subcommittee in its future deliberations.

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Witness Background Statement

I am a Senior Research Scientist at NORC at the University of Chicago. For the past 26 years, I have specialized in conducting population studies of gambling and problem gambling. At NORC, I assisted in carrying out the Gambling Impact and Behavior Study which was the central component of a \$2 million research program initiated by the National Gambling Impact Study Commission in 1998. Also at NORC, I directed the 2006 California Problem Gambling Prevalence Survey, still the largest such survey carried out in the United States.

In addition to my position at NORC, I am President of Gemini Research, Ltd., a Massachusetts-based company established in 1992. I also hold professorial appointments at the University of Massachusetts, Amherst and the Auckland University of Technology in New Zealand.

Over the past five years, my projects have been funded under grants or contracts with government agencies in Australia, Britain, Canada, New Zealand, Norway, Singapore, Spain and Sweden. I have completed several small consulting assignments for gaming operators or suppliers in this period, including review of a proposal to evaluate a responsible gambling program for Betfair, a British online gaming company.